

AEP Generating Company

2014 Second Quarter Report

Financial Statements



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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc., an electric utility holding company.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
ASU	Accounting Standards Update.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRS	Internal Revenue Service.
MW	Megawatt.
OPEB	Other Postretirement Benefit Plans.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
UMWA	United Mine Workers of America.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2014 and 2013
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES				
Sales to AEP Affiliates	\$ 135,081	\$ 107,897	\$ 304,080	\$ 230,229
Other Revenues – Affiliated	6,297	-	13,412	-
Other Revenues – Nonaffiliated	1,482	52	2,789	105
TOTAL REVENUES	<u>142,860</u>	<u>107,949</u>	<u>320,281</u>	<u>230,334</u>
EXPENSES				
Fuel and Other Consumables Used for Electric Generation	70,037	52,372	180,256	117,795
Rent – Rockport Plant, Unit 2	17,071	17,071	34,142	34,142
Other Operation	16,953	6,408	32,844	12,541
Maintenance	12,194	9,893	19,110	19,940
Depreciation and Amortization	10,482	9,819	20,969	19,359
Taxes Other Than Income Taxes	825	794	2,101	2,058
TOTAL EXPENSES	<u>127,562</u>	<u>96,357</u>	<u>289,422</u>	<u>205,835</u>
OPERATING INCOME	15,298	11,592	30,859	24,499
Other Income (Expense):				
Interest Income	9	58	11	140
Allowance for Equity Funds Used During Construction	313	132	319	170
Interest Expense	<u>(2,677)</u>	<u>(3,124)</u>	<u>(5,934)</u>	<u>(6,525)</u>
INCOME BEFORE INCOME TAX EXPENSE	12,943	8,658	25,255	18,284
Income Tax Expense	<u>6,934</u>	<u>2,845</u>	<u>11,521</u>	<u>5,946</u>
NET INCOME	<u>\$ 6,009</u>	<u>\$ 5,813</u>	<u>\$ 13,734</u>	<u>\$ 12,338</u>

The common stock of AEGCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 2014 and 2013
(in thousands)
(Unaudited)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2012	\$ 1,000	\$ 238,184	\$ 12,466	\$ 251,650
Common Stock Dividends			(19,000)	(19,000)
Net Income			12,338	12,338
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2013	<u>\$ 1,000</u>	<u>\$ 238,184</u>	<u>\$ 5,804</u>	<u>\$ 244,988</u>
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2013	\$ 1,000	\$ 260,487	\$ 7,527	\$ 269,014
Common Stock Dividends			(6,000)	(6,000)
Net Income			13,734	13,734
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2014	<u>\$ 1,000</u>	<u>\$ 260,487</u>	<u>\$ 15,261</u>	<u>\$ 276,748</u>

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2014 and December 31, 2013
(in thousands)
(Unaudited)

	June 30, 2014	December 31, 2013
CURRENT ASSETS		
Accounts Receivable:		
Customers	\$ 2,401	\$ 1,378
Affiliated Companies	52,674	54,960
Miscellaneous	6	105
Total Accounts Receivable	55,081	56,443
Fuel	28,000	27,334
Materials and Supplies	23,471	24,535
Prepayments and Other Current Assets	1,414	2,043
TOTAL CURRENT ASSETS	107,966	110,355
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,533,685	1,529,249
Transmission	9,688	9,688
Other Property, Plant and Equipment	39,668	39,328
Construction Work in Progress	84,242	57,216
Total Property, Plant and Equipment	1,667,283	1,635,481
Accumulated Depreciation and Amortization	999,973	981,176
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	667,310	654,305
OTHER NONCURRENT ASSETS		
Regulatory Assets	66,619	71,190
Deferred Charges and Other Noncurrent Assets	14,246	11,554
TOTAL OTHER NONCURRENT ASSETS	80,865	82,744
TOTAL ASSETS	\$ 856,141	\$ 847,404

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2014 and December 31, 2013
(Unaudited)

	June 30, 2014	December 31, 2013
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	\$ 22,064	\$ 28,584
Accounts Payable:		
General	13,010	11,039
Affiliated Companies	22,864	23,721
Long-term Debt Due Within One Year – Nonaffiliated	52,273	52,273
Accrued Taxes	20,228	9,710
Accrued Rent – Rockport Plant, Unit 2	4,963	4,963
Other Current Liabilities	9,567	7,354
TOTAL CURRENT LIABILITIES	144,969	137,644
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	163,636	167,273
Deferred Income Taxes	84,559	88,311
Regulatory Liabilities and Deferred Investment Tax Credits	45,041	45,125
Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	46,980	49,766
UMWA Pension Withdrawal Liability	40,186	39,251
Deferred Credits and Other Noncurrent Liabilities	54,022	51,020
TOTAL NONCURRENT LIABILITIES	434,424	440,746
TOTAL LIABILITIES	579,393	578,390
Commitments and Contingencies (Note 3)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – \$1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	260,487	260,487
Retained Earnings	15,261	7,527
TOTAL COMMON SHAREHOLDER'S EQUITY	276,748	269,014
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$ 856,141	\$ 847,404

See Condensed Notes to Condensed Financial Statements beginning on page 7.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2014 and 2013
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net Income	\$ 13,734	\$ 12,338
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	20,969	19,359
Deferred Income Taxes	(397)	6,219
Amortization of Deferred Gain on Sale-and-Leaseback – Rockport Plant, Unit 2	(2,786)	(2,786)
Allowance for Equity Funds Used During Construction	(319)	(170)
Change in Other Noncurrent Assets	(1,272)	(3,228)
Change in Other Noncurrent Liabilities	3,296	(1,253)
Changes in Certain Components of Working Capital:		
Accounts Receivable	2,786	9,437
Fuel, Materials and Supplies	(1,024)	(25,270)
Accounts Payable	1,260	(9,226)
Accrued Taxes, Net	10,635	(128)
Other Current Assets	573	323
Other Current Liabilities	2,166	45
Net Cash Flows from Operating Activities	49,621	5,660
INVESTING ACTIVITIES		
Construction Expenditures	(32,880)	(37,504)
Proceeds from Sales of Assets	73	-
Net Cash Flows Used for Investing Activities	(32,807)	(37,504)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	(6,520)	45,826
Retirement of Long-term Debt – Nonaffiliated	(3,637)	(3,636)
Principal Payments for Capital Lease Obligations	(657)	(346)
Dividends Paid on Common Stock	(6,000)	(10,000)
Net Cash Flows from (Used for) Financing Activities	(16,814)	31,844
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at Beginning of Period	-	-
Cash and Cash Equivalents at End of Period	\$ -	\$ -
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 5,466	\$ 6,154
Net Cash Paid for Income Taxes	1,964	2,207
Noncash Acquisitions Under Capital Leases	620	85
Construction Expenditures Included in Current Liabilities as of June 30,	407	635
Cash Dividends Declared but Not Paid	-	9,000

See Condensed Notes to Condensed Financial Statements beginning on page 7.

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1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three and six months ended June 30, 2014 is not necessarily indicative of results that may be expected for the year ending December 31, 2014. The condensed financial statements are unaudited and should be read in conjunction with the audited 2013 financial statements and notes thereto, which are included in AEGCo's 2013 Annual Report.

Management reviewed subsequent events through July 25, 2014, the date that the second quarter 2014 report was issued.

2. NEW ACCOUNTING PRONOUNCEMENTS

Upon issuance of final pronouncements, management reviews the new accounting literature to determine its relevance, if any, to AEGCo's business. The following final pronouncements will impact the financial statements.

ASU 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment" (ASU 2014-08)

In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard must be prospectively applied to all reporting periods presented in financial reports issued after the effective date. Early adoption is permitted for disposals that have not been reported in financial statements previously issued or available for issuance.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. Management plans to adopt ASU 2014-08 effective January 1, 2015.

ASU 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09)

In May 2014, the FASB issued ASU 2014-09 clarifying the method used to determine the timing and requirements for revenue recognition on the statements of income. Under the new standard, an entity must identify the performance obligations in a contract, the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts. This standard must be retrospectively applied to all reporting periods presented in financial reports issued after the effective date.

The new accounting guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is not permitted. As applicable, this standard may change the amount of revenue recognized in the income statements in each reporting period. Management is analyzing the impact of this new standard and, at this time, cannot estimate the impact of adoption on revenue or net income. Management plans to adopt ASU 2014-09 effective January 1, 2017.

3. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within AEGCo's 2013 Annual Report should be read in conjunction with this report.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties unless specified below.

Letters of Credit

AEGCo has \$45 million of variable rate Pollution Control Bonds supported by bilateral letters of credit for \$46 million. The letters of credit mature in July 2017.

Indemnifications and Other Guarantees

Contracts

AEGCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of June 30, 2014, there were no material liabilities recorded for any indemnifications.

Master Lease Agreements

AEGCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, AEGCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of June 30, 2014, the maximum potential loss for these lease agreements was approximately \$18 thousand assuming the fair value of the equipment is zero at the end of the lease term.

CONTINGENCIES

Rockport Plant Litigation

In July 2013, the Wilmington Trust Company filed a complaint in U.S. District Court for the Southern District of New York against AEGCo and I&M alleging that it will be unlawfully burdened by the terms of the modified New Source Review consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering or retirement of the unit. The plaintiff further alleges that the defendants' actions constitute breach of the lease and participation agreement. The plaintiff seeks a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiff. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio. AEGCo's and I&M's motion to dismiss, filed in October 2013, is pending. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

4. BENEFIT PLANS

AEGCo participates in an AEP sponsored qualified pension plan. Substantially all of AEGCo's employees who are not UMWA members are covered by the qualified plan. AEGCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Cost

The following tables provide the components of AEGCo's net periodic benefit cost for the plans for the three and six months ended June 30, 2014:

	<u>Pension Plan</u>	<u>Other Postretirement</u>
	<u>Three Months Ended</u>	<u>Benefit Plans</u>
	<u>June 30, 2014</u>	<u>Three Months Ended</u>
	<u>June 30, 2014</u>	<u>June 30, 2014</u>
	(in thousands)	
Service Cost	\$ 20	\$ 315
Interest Cost	43	534
Expected Return on Plan Assets	(55)	(392)
Amortization of Prior Service Credit	-	(17)
Amortization of Net Actuarial Loss	24	281
Net Periodic Benefit Cost	<u>\$ 32</u>	<u>\$ 721</u>

	<u>Pension Plan</u>	<u>Other Postretirement</u>
	<u>Six Months Ended</u>	<u>Benefit Plans</u>
	<u>June 30, 2014</u>	<u>Six Months Ended</u>
	<u>June 30, 2014</u>	<u>June 30, 2014</u>
	(in thousands)	
Service Cost	\$ 40	\$ 630
Interest Cost	87	1,069
Expected Return on Plan Assets	(110)	(785)
Amortization of Prior Service Credit	-	(34)
Amortization of Net Actuarial Loss	48	562
Net Periodic Benefit Cost	<u>\$ 65</u>	<u>\$ 1,442</u>

5. BUSINESS SEGMENTS

AEGCo has one reportable segment, an electricity generation business. AEGCo's other activities are insignificant.

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of AEGCo's Long-term Debt as of June 30, 2014 and December 31, 2013 are summarized in the following table:

	<u>June 30, 2014</u>		<u>December 31, 2013</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	(in thousands)			
Long-term Debt	\$ 215,909	\$ 259,619	\$ 219,546	\$ 237,906

7. INCOME TAXES

AEP System Tax Allocation Agreement

AEGCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

Federal and State Income Tax Audit Status

The IRS examination of years 2009 and 2010 started in October 2011 and was completed in the second quarter of 2013. The IRS examination of years 2011 and 2012 started in April 2014. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, AEGCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

AEGCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns. AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. However, it is possible that previously filed tax returns have positions that may be challenged by these tax authorities. Management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2009.

8. FINANCING ACTIVITIES

Long-term Debt

A long-term debt principal payment made during the first six months of 2014 is shown in the table below:

Type of Debt	Principal Amount Paid	Interest Rate	Due Date
Senior Unsecured Notes	\$ 3,637	6.33	2037 (a)

- (a) AEGCo's Senior Unsecured Notes due in 2037 are payable over the life of the notes as a \$7.3 million annual principal amount plus accrued interest paid semiannually.

Dividend Restrictions

AEGCo pays dividends to Parent provided funds are legally available. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of AEGCo to transfer funds to Parent in the form of dividends.

Federal Power Act

The Federal Power Act prohibits AEGCo from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

Leverage Restrictions

Pursuant to the credit agreement leverage restrictions, AEGCo must maintain a percentage of debt to total capitalization at a level that does not exceed 67.5%.

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP's subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of June 30, 2014 and December 31, 2013 are included in Advances from Affiliates on AEGCo's condensed balance sheets. AEGCo's Utility Money Pool activity and corresponding authorized borrowing limits for the six months ended June 30, 2014 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of June 30, 2014	Authorized Short-Term Borrowing Limit
(in thousands)					
\$ 59,541	\$ 26,099	\$ 15,684	\$ 10,947	\$ 22,064	\$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the six months ended June 30, 2014 and 2013 are summarized in the following table:

Six Months Ended June 30,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2014	0.33 %	0.25 %	0.33 %	0.24 %	0.28 %	0.28 %
2013	0.43 %	0.32 %	0.38 %	0.35 %	0.34 %	0.36 %

9. VARIABLE INTEREST ENTITIES

The accounting guidance for “Variable Interest Entities” is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for “Variable Interest Entities.” In determining whether AEGCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE’s variability AEGCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently. AEGCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP’s subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC’s cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC’s cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. AEGCo’s total billings from AEPSC for the three months ended June 30, 2014 and 2013 were \$3 million and \$2 million, respectively, and for the six months ended June 30, 2014 and 2013 were \$5 million and \$4 million, respectively. The carrying amount of liabilities associated with AEPSC as of June 30, 2014 and December 31, 2013 was \$1 million and \$1 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.